Regulatory Impact Analysis Project Spotlight

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Introduction

Why do we care about regulation?

▸ The **purpose** of regulation: markets when they perform well are "self-regulating;" actions of competitors, prices, et. al., "regulate" firms

  – Government intervenes because of policy objectives it believes cannot be accomplished otherwise: increasing competition and openness of markets, promoting investment, improving working conditions and employment, addressing public health, the environment, et. al.

▸ Why the ***intended purpose*** may not be realized: the intended purpose of the regulation by the regulator may not be realized due to the ability of market participants to:

  – Avoid or shift costs of the regulation

  – Exhibit rent-seeking behavior

▸ This is important because regulations impose additional, non-market constraints on a firm's choices and behavior; if not evaluated and structured properly, regulations can result in unintended outcomes

  – Any regulation is likely to affect different firms differently, which is why careful assessment is necessary

  Take away: **regulation can result in "unintended consequences," which is why a careful assessment of a regulation is needed**

Definition of Regulatory Impact Analysis (RIA)

▸ RIA is a policy tool for providing detailed information about the potential effects of regulatory measures – **of both the intended and actual effects** - in terms of costs and benefits to all parties affected by the regulation.

▸ RIAs help ensure that government regulations are effective and efficient and result in the greatest net public benefit.

▸ RIAs help ensure that stakeholders are fully aware of the benefits and costs that are likely to result from the proposed regulation.

▸ Because of the perceived need to quantify all costs and benefits, RIAs are oftentimes viewed as difficult to complete….

RIA Toolkit

▸ USAID developed a Regulatory Impact Analysis (RIA) Toolkit to help stakeholders – both public and private in….

- Evaluating the costs associated with a particular regulation, law or decree: either existing or proposed;

- Evaluating the expected benefits of the regulation;

- Comparing the intended consequences (costs and benefits) with the actual consequences (costs and benefits);

- Implementing a stakeholder engagement strategy.

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RIA toolkit includes the following sections

▸ Why we perform an RIA;

▸ The three main steps in performing an RIA;
- Step 1 - The Diagnostic
- Step 2 - The Cost-Benefit Analysis
- Step 3 - Stakeholder Engagement and Advocacy

▸ The Lebanon Project Working Groups: Applying the Three Step Process and Findings.

RIA Toolkit

▸ Why We Perform an RIA?

▸ The Three Main Steps in Performing an RIA

▸ The Lebanon Project Working Groups: Applying the Three Step Process and Findings;

Why we perform an RIA

▶ RIA is a policy tool for providing detailed information about the potential effects of regulatory measures – **of both the intended and actual effects** - in terms of costs and benefits to all parties affected by the regulation

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RIA Toolkit

▶ Why We Perform an RIA

▶ The Three Main Steps in Performing an RIA

▶ The Lebanon Project Working Groups: Applying the Three Step Process and Findings;

Performing an RIA – Step 1 : The Diagnostic

▸ If one is looking to change, introduce or eliminate a regulation, it is advisable to first determine to the extent possible the likelihood of making the change.

▸ In determining whether a regulatory change is possible the following factors should be evaluated:

  – The degree of "ease" in working through the country's administrative process(es);

  – The amount of key stakeholder support for the action being proposed;

  – The strength of the factual support obtained by working through an RIA, i.e., the credibility of the cost-benefit analysis.

Probability of Successful Regulatory Change

Degree of Administrative Ease

3	1
4	2

Amount of Key Stakeholder Support
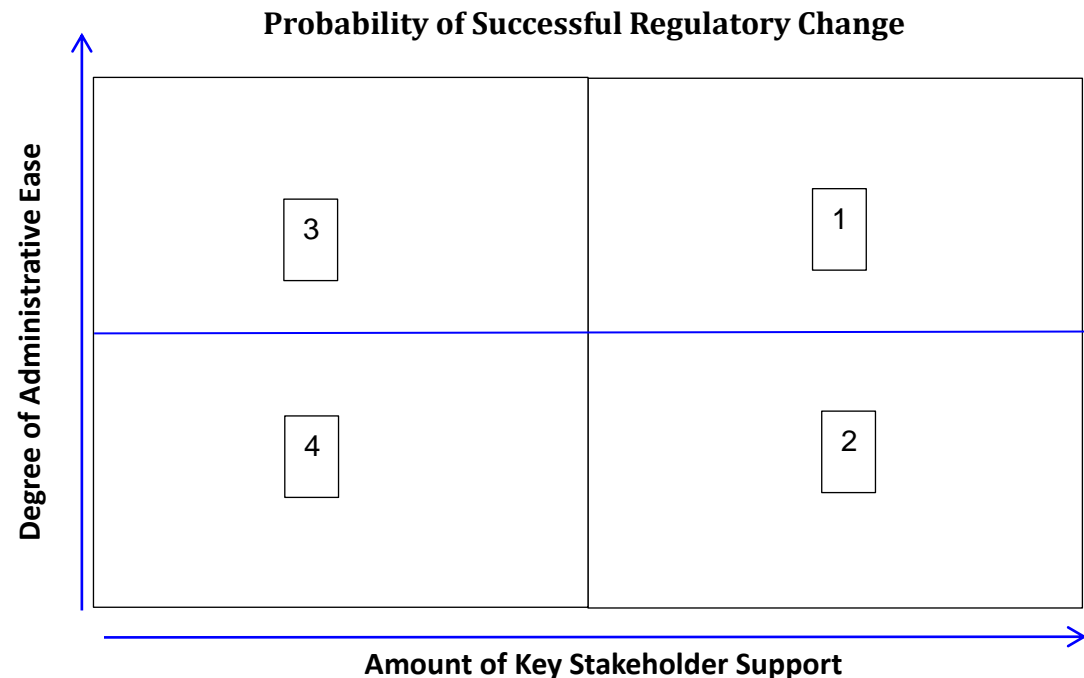
Performing an RIA – Step 2 : The Cost – Benefit Analysis

▸ The RIA has its foundation in classical Cost-Benefit Analysis (CBA).

▸ Ideally, a CBA follows a definitive process:

  – Estimates the costs and benefits relative to a baseline;

  – Quantifies and values all costs and all benefits to the extent data is available;

  – Treats risk and uncertainty transparently and objectively;

  – "Discounts" all future values (costs, benefits) to their Present Value;

  – Compares the discounted costs to the discounted benefits.

▸ In most real-world cases where quality data is lacking, executing the ideal CBA is not possible. This Toolkit includes two options for performing the CBA:

  – Option 1.) Completion of an *analytical template* that captures at a high level the needed cost/benefit information; we refer to this template as the *Process-Model-Worksheet (PMW);*

  – Option 2.) Completion of a more detailed analysis that accounts for costs and benefits *over time* using discount factors and Net Present Value.

Performing an RIA – Step 2 : The Cost – Benefit Analysis Continued

▸ Option 1 - Process Model Worksheet (PMW)

– The PMW presents a step-by-step method for completing a simple analysis.

– Has a logical flow, asks the key questions, facilitates collection of information, does not rely on quantitative analysis exclusively and is less "data dependent" than other CBA methods.

– This method proved most effective with a number of RIA's in Lebanon.

Performing an RIA – Step 3 : Stakeholder Engagement and Advocacy

▸ When aiming to either implement or change a regulation, negative or mismanaged stakeholder relationships can hinder a successful regulatory transformation.

▸ By managing relationships with stakeholders, RIA practitioners and analysts can better understand their needs and concerns and develop approaches to proactively inform, involve, and inspire stakeholders, thereby transforming dispassionate audiences or even adversaries into partners in regulatory reform.

▸ One can accomplish these goals through a comprehensive stakeholder engagement framework we identify as Stakeholder Relationship Management (SRM)
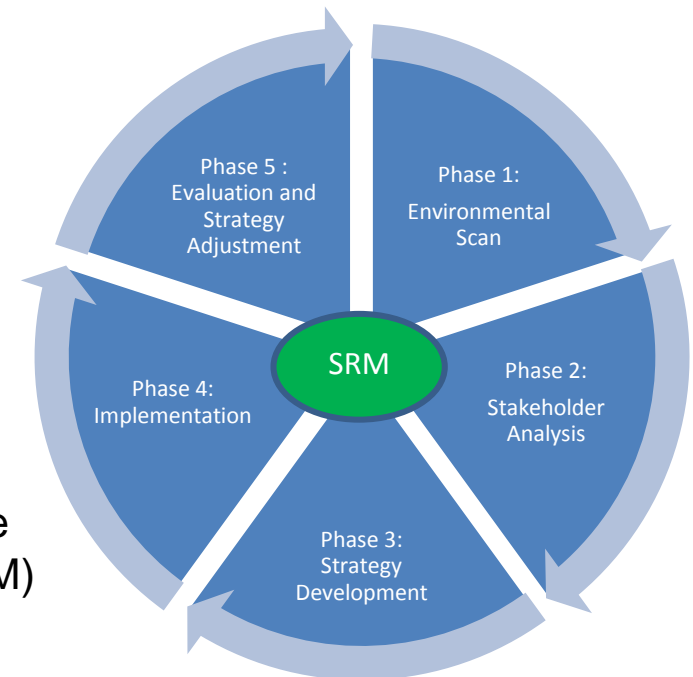
Phase 5 : Evaluation and Strategy Adjustment

Phase 1: Environmental Scan

SRM

Phase 2: Stakeholder Analysis

Phase 4: Implementation

Phase 3: Strategy Development

Performing an RIA – Step 3 : Stakeholder Engagement and Advocacy – Continued

▶ **Stakeholder Relationship Management (SRM)**

– Phase 1 - Environmental Scan: Identifies how a specific regulation or policy change impacts specific stakeholders. The purpose is to identify the primary and secondary stakeholder groups. This is done through three phases:

– Phase 2 - Stakeholder Analysis

  – During the environmental scan phase, it is often the case that more stakeholders are identified than those who are recognized as essential in effecting successful regulatory change.

  – This list must be analyzed, mapped, narrowed and prioritized.
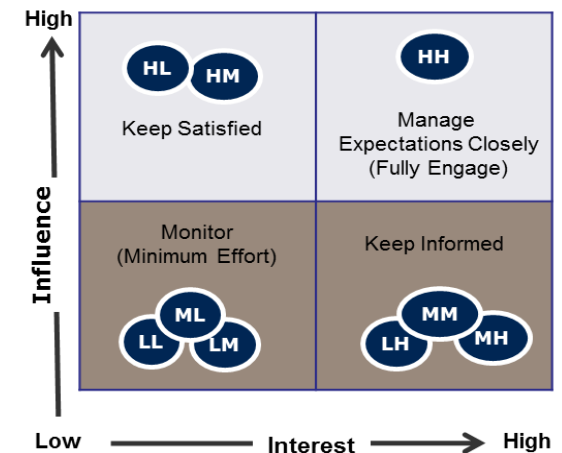
Performing an RIA – Step 3 : Stakeholder Engagement and Advocacy – Continued

▸ **Stakeholder Relationship Management (SRM)**
– Phase 3 – Strategy Development
– Stakeholders have different motivations and react differently to proposed changes.
– These motivations need to be considered in the engagement plan.
– After stakeholders are mapped against a timeline, an effective strategy is developed for engagement.

PROCESS	GLANCE	SCAN	READ	STUDY
WHAT:	Brief, general, colorful idea: The reader should be able to communicate the idea from a brief glance	More depth: Audience should be able to communicate the key messages after scanning	Those who read the message should be able to articulate message and understand the logic	Allows internalization of idea exchange and communication of the message
INTENT:	What is the point? **Get their attention**	Clearly articulate the story to … **Get the audience thinking**	Provide more detail **Get them involved**	Buy-in **Get them to take action**
PRODUCT:	One-page/ two-page brochure	Three-page brochure, story board sequence	Speeches, information papers, articles, transcripts	National strategy, policy, expanded study
EXAMPLE:	Posters	Television advertisement	Speeches, white papers, letter to editor	Policy paper

– Phases 4 and 5 – Strategy Implementation, Evaluation and Adjustment
– After the development of an engagement strategy a systematic approach is needed for implementation.
– To evaluate the implementation qualitative and quantitative data is collected through surveys, focus groups, and interviews to understand stakeholders view of the implementation.
– Stakeholders' attitudes may change throughout the implementation of the SRM framework so strategies need to be dynamic to keep pace.

RIA Toolkit

▸ Why We Perform an RIA

▸ The Three Main Steps in Performing an RIA

▸ The Lebanon Project Working Groups: Applying the Three Step Process and Findings;

▸ To introduce the RIA concept, USAID engaged with five public and private sector partners in the preparation of RIAs focusing on five important issues currently relevant to Lebanon including:

- *RIA of Ministry of Agriculture and Ministry of Industry Decision no. 950/1 on Food and Beverage Producers and Other Stakeholders*

- *RIA of LIBNOR's Proposed Changes to Imported Honey Standards*

- *RIA of Decision no. 720/1 "Import Conditions of Manufactured and Prepared Animal Products"*

- *RIA of Draft of Article 47 of the Lebanese Patent Law Dealing with Protection of Confidential Information*

- *RIA of Chamber of Commerce Industry and Agriculture of Saida and South (CCIAS) Proposal for Rezoning Industrial Land*

▸ Each Working Group found the RIA process to be an informative and a worthwhile undertaking.

WG 1 - The Impact of Ministry of Agriculture and Ministry of Industry Decision 950/1 on Food and Beverage Producers and Other Stakeholders Working Group

▸ **Background**

– Issued by the Ministry of Agriculture (MoA) and the Ministry of Interior and Municipalities (MoIM) regulation no. 950/1 requires food and beverage manufacturing establishments to be subjected to an inspection on their compliance with health and technical standards related to food safety, consumer protection, and the environment.

– The Chamber of Commerce in Beirut sought to weigh the costs and benefits to consumers, producers, government agencies, business support organizations of this regulation.

▸ **Results and Conclusion**

– The RIA indicated the overall benefits outweigh the costs by a margin of 16 percent. The RIA estimated that 12 percent of Lebanon's firms in the F&B sector (nearly 100 companies) will be forced to relocate their factories due to inadequate infrastructure.

– RIA brought to light the heavy reliance on the country's physical infrastructure for the successful delivery of products in the food and beverage sectors.

WG 2 – RIA of LIBNOR's Proposed Changes to Imported Honey Standards

▸ **Background**

- LIBNOR is implementing a set of standards on the essential composition and quality factors of honey sold in Lebanon.

- At present, importation of honey into Lebanon is subject to a maximum of 20mg/kg in HMF content, compared 40 mg/kg maximum required of domestic producers.

- LIBNOR is proposing to amend the current honey regulation to comply with the Codex standard and raise the maximum HMF level to 40 mg/kg for imported products.

▸ **Results and Conclusion**

- The CBA found an overall "net benefit" to Lebanon from the proposed changes to honey standards.

- Most stakeholders (Consumers, Government, retailers, etc.) are expected to benefit from the introduction of the new standard while beekeepers are expected to be the "net cost bearers";

- In the short-term, Lebanese producers were expected to operate at a competitive. disadvantage. This can be reversed in the long run if local businesses increase their marketing efforts to generate awareness of the quality of Lebanese honey.

- The Working Group recommended that LIBNOR engage initially with "large" local honey producers, providing access to special labeling facilities and support for increased marketing.

WG 3 - Decision 720/1 "Import Conditions of Manufactured and Prepared Animal Products"

▶ **Background**

- Decision no. 720/1 was issued by the MoA, updating import conditions for manufactured and prepared animal products and modifying the standard's previous requirements.

- This Decision addresses regulations that impose new requirements on prepared and manufactured products' importers.

- The Working Group on the Ministerial Decision no. 720/1 set out to perform an RIA to assess if the requirements for the import of Manufactured and Prepared Animal Products meet the intended objectives of the Decision.

▶ **Conclusion**

- The Working Group had difficulties identifying credible data sources to complete a thorough analysis, as most food product manufacturers and importers were unwilling to divulge proprietary financial information.

- This RIA put the spotlight on the large number of regulatory decrees issued by the government for this sector.

- The Working Group recommended that it may be more effective to focus on the regulatory "process" and transparency currently making regulations difficult to follow, track, evaluate and advocate for or against. Shedding light on the specific process may lead to needed reform.

WG4

WG 4 – Article 47 of the Lebanese Patent Law Dealing with Protection of Confidential Information

▶ **Background**

- Article 47 addresses issues of data exclusivity in the pharmaceutical industry. "Draft of Article 47" aims at defining exclusive data/secret data to protect research based pharmaceutical companies.

- In Lebanon, generic manufactures are not banned from relying on original data to register competing products that are identical to original products.

- The Working Group conducted an RIA to measure the impact of banning firms from using original data to register competing products for a reasonable and specific number of years., on Private firms, foreign direct investment (FDI) and the Lebanese economy.

▶ **Conclusion**

- A new interpretation of Article 47 is projected to show an overall benefit to the Lebanese economy increasing net output across the domestic pharmaceutical industry, exports, R&D investment and reducing healthcare costs to consumers.

- Working Group recommended that international pharmaceutical companies engage with domestic generic pharmaceutical companies.

WG 5 - Chamber of Commerce Industry and Agriculture of Saida and South (CCIAS) Rezoning Industrial Land

▶ **Background**

- The Chamber of Commerce Industry and Agriculture of Saida and South (CCIAS) has identified land, is searching for investors, and is working with government stakeholders to rezone a plot of land solely for industrial activities.

- CCIAS formed a Working Group to conduct an RIA to assess the potential impacts of rezoning this land for industrial purposes.

- This analysis will support CCIAS as "a data point" in their proposals to government stakeholders and potential investors for their investment and support.

▶ **Conclusion**
- The economic analysis of this investment and regulatory change projects an overall benefit to the Lebanese economy, with significant impacts to long-term Output and Employment.

- Private sector investors are expected to break even within 7 years, see an ROI of 40 % after 10 years and 100% after 20 years.

Time Frame	Total Direct, Indirect and Induced Annual Output Increase ($M FY2012)	Total Direct, Indirect and Induced Employment Increase (Jobs)	Annual Government Tax Revenue Increase ($M FY 2012)
Years 1-5	$480	1725	$16
Years 6-10	$795	3290	$28
Years 11-20	$1,061	4504	$38

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Oxford Economics Global Econometric Model

▸ To continue promoting economic growth and the use of the RIA concept, USAID has given to the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIAB) the Lebanese version of the Oxford Economics Econometric Global Model.

▸ This model was developed and used by USAID/Booz Allen Hamilton as part of the process for conducting an economic analysis of Lebanon's WTO accession and as part of two of the RIA's conducted by the Working Groups.

▸ While having access to this model is not necessary for conducting RIAs, for those where data is rich (i.e. surveys or publicly available data exists) the Oxford Economics model can help inform on the full (direct, indirect and induced) impacts to the Lebanese economy of a regulation.

The Oxford Economics model can measure the economic impacts over time of decisions regarding policy, regulation and spending for countries

▸ This model provides **long term estimates** of **GDP, employment, consumer spending**, **investment,** and other economic indicators over time

▸ The Oxford Economics Model is *global*

  – Detailed forecasts for more than 175 countries

  – Updated each month, quarter, and bi-annually for select countries

  – Provides forecasted estimates of economic and financial variables (e.g., interest rates, stocks, bonds)

▸ With this modeling capability decision-makers, foreign investors and other stakeholders can evaluate questions such as:

  – How expansion or reform of specific industry sectors will impact an industry's production costs

  – How changes in regional and global trade, changes in economic conditions, new market opportunities and increasing risks will affect the exchange rates

Oxford Economics forecast track record

Oxford Economics Forecasting Record 2007-2009 (average absolute forecast divergence for real GDP growth)		
	USA	**Eurozone**	**Japan**
OE	0.7	1.4	2.0
EIU	1.0	2.2	2.6
Global Insight	0.7	1.7	2.4
IMF	1.6	2.2	2.9
OECD	1.1	1.8	2.7
Consensus Economics	1.0	1.8	2.4
Macro Advisors	1.2	-	-

Note: Forecasts made in December for year ahead.

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Summary

▸ RIA is a process that may take numerous iterations, but one that will provide value-added inputs to all affected stakeholders along the way;

▸ The RIA Toolkit presents alternative methods for completing a cost benefit analysis relating to a new or changed regulation;

▸ In addition to the "how-to" exercises, the RIA Toolkit provides five concrete examples of implementation of the RIA process by five Working Groups in Lebanon;

▸ To promote Lebanon's economic growth and the use of the RIA concept, USAID has given to CCIAB the Lebanese version of the Oxford Economics Model with the objective that this tool can help inform future RIAs and effective decision making.